Published Articles

of Chandramowly

DH Avenues

Wednesday, October 13, 2004

Leadership Competency Series

Wrong Side of Right Sizing

'Managing conflicts' is on a high call, consequent to mounting value divergence, increasing cost focus, play of power centres and fidgeting minds aiming to seize position shafts in leadership trapeze. Key drivers of this competency is to quickly understand the conflicts between 'smart sizing' and 'forced ranking', evaluating its short and long term impact on organisation and people, to reach an equitable resolution, says M R CHANDRAMOWLY.

It's back again, a premonition of another series of unpleasant actions flashed up in the mind's eye of Shashidhar. It was seven months ago his organisation passed through the tough time of 'smart sizing' actions. The urges and curses of separated employees were still rumbling in the corners of the organisation. 'Getting rid of the fat at the drop of the hat!' Can he stop it? He did voice out his concern to his superiors that the 'chop chop' every year can destroy the organisation, de-motivate the star performers and demoralise employees.

Shashi was known for his persuasive skills but this was on again, which he did not enjoy doing once more. The corporate mandate of manpower reduction had landed on his table. It is a painful process of cutting the relationship chord.

Shashidhar, the Director-HR of a Fortune 500 US company in India was personally convinced that repeated reduction of manpower based on the formula to 'reward top 20, retain middle 70 and remove bottom 10' doesn't always fit well with our social and economic system. It may be inevitable to clean up the organisation, which would collapse if it were not sized up to be economically viable. He had done that twice enduring the throbbing process. He was not sure about terminating the 'force-ranked' bottom 10 per cent of employees every year.

The CEO assigned this key task of execution to Shashi. Shashi thought over it again. There was no visible alternative. He tried his best to review the decision with his CEO. He counselled and explained about the lawsuits faced by Ford, the US giant, against such separations based on 'forced-ranking'. He did not succeed. He had to execute the action or leave the organisation. Shashi was caught between the conflicting situation of organisation values and personal values. Is it right to separate employees every year by force-ranking them to bottom 10 per cent? If it is, how long one could go on doing it? Is there any difference in its impact when it is applied at the US and in India considering the economics and job needs of individuals?

It is good to learn leadership lessons from great companies. But, we must remember to watch and know what happened next in those companies over a period. There are books written on 'world's most successful organisation' and we can find some of the names including Enron in the list. Most of the corporate lessons are not supreme realities applicable all the time.

Forced Ranking - The 'Ford' approach

Some of the American organisations like GE, Microsoft, HP and Ford, follow a system of 'Forced Ranking' for grading employee performance and grouping them based on value addition to organisation.

In this method, as part of performance evaluation, employees are ranked against each other to arrive at what they call as 'Top 20 per cent, Middle 70 per cent and bottom 10 per cent'. The top 20 per cent of employees will receive greater pay and benefits and the middle 70 get a modest pay raise in line with the pitched percentile of industry average.

The bottom 10 per cent receives no bonus and such an employee could be terminated. Ford believed that it is necessary for overhauling culture and to build a young and ethically diverse management team and rightly used this method. Ford had to force-rank their 1,800 middle mangers in to three categories. A, B and C. The 'C' category of 10 per cent employees would not receive bonus for one year and if they miss it for second time, they face the risk of termination.

This was contested in the US courts. 57 Ford employees were parties to the lawsuits filed based on acts of discrimination that adversely affected older employees. Members of AARP (American Association of Retried Persons) were considering joining the lawsuit. However, the top management of Ford grappled, by abandoning some elements of the Performance Management Process. The system was modified since it harmed teamwork and morale.

They dropped the forced and fixed percentage target of 10 per cent, which was done annually. The bottom 10 per cent has now been reduced to 5 per cent. The gradation of 'A B C' was replaced by three employee categories (1) Top achievers (2) Achievers and (3) 'Improvement Required' cases.

The third category employees are subjected to coaching, counselling for performance improvement. The CEO Jacques Nasser and the Head of HR had to leave Ford. William Clay Ford Jr, the successor CEO settled the lawsuits (Fortune, May 28, 2001)

The 'bottom' line

How do organisations identify the bottom 10 per cent of employees? It is mostly based on performance appraisal ratings of previous years, relationship with boss, skill value and

importance to business. I have seen the play of emotions, subjectivity, personal comfort coming over the main aspects like organisational need and human capability of improving performance. If an employee cannot improve his performance and do not add value to an organisation, what could be done beyond advice, feedback and warning, after trying out all the possibilities? Yes, there could be some incorrigible cases, which have to be dealt with after trying out all possible corrective methods. But, fundamentally, how did these 'continuous poor performers' get in to the company? How good are the recruitment, selection and reference check processes in organisations?

How structured is the interview process? How can we come out of situations portraying 'Hire for the talent and fire for the behaviour' trends? Who has the accountability for right hiring? Are our Mangers trained to effectively interview candidates, unveiling the projected personal image to discover and see the real personal image, behaviours and accomplishments of candidates? Are they aware of the cost and horrors of wrong hire?

Vision Myopia

One of the basic assumptions of projecting cost analysis of right sizing is to reckon employees in terms of their cost to company. I have seen some of the 'high-performance' and 'high-potential' employees also put in the bottom list either for cost reduction or for lack of business low-key areas. Is there now way to utilize the competency of star performers?

The visible comfort is a one-time expenditure for employee separation will take away the monthly load of their salaries, permanently cutting down costs. Though it looks logical, I am not sure about the assumption of 'permanency' in the long run. I have seen organisations refilling the vacancies, time and again and even go to an extent of re-employing separated staff members back in to their previous positions in same companies. The answer I got, when I questioned such practices and principles for such decisions is an easy one: 'Market has changed'. 'There is an improvement in that once dead area of demand' and so on. Leaders must own the responsibility of long-term vision for their organisation as well as their employees. There is a need to review on how to utilise high performers and high potentials.

At times, I had persuaded managements for a job-switch of high performers who are not in demand, trying out different possibilities within the organisation to accommodate them using their competencies. Avoiding haste and blind guidance of rulebook is another tweak-step.

Decisions guided by emotions

The non-performers have to start performing. As continued tolerance of poor performance is a key de-motivator, 'Shape-up or ship-out' is an acceptable rule. In the process of filtering, it makes sense to bear the cost of high performers till an organisation decides on how to make use of their talents.

In the process, some employees who are actually poor performers as known to most of the employees but rated as average performers may continue in their jobs, blessed by bosses. A powerful performance management system that works can only save organisations. To succeed HR has to play a key role, displaying great degree of courage and confidence.

It is good to have a flexible approach. Changing a rule could be called as flexibility and not changing principles. A twisted HR practice can impinge on the long-term interest of the organisation and its stakeholders. Here comes the importance of employee competency documentation, which is defined using behavioural language, to weigh and measure the displayed competencies or lack of it. It brings in a culture of openness and comfort when employees know that the separation decisions are based on examinable facts.

Conflict Combat

A survey found that mangers were spending 18 per cent of their time dealing with direct face-to-face conflict. The survey also observed that it was doubled since 1986. Career growth, promotion, retention schemes, stock option inroads have increased the conflict to balance the managerial grid of People Vs Performance.

Value conflicts, power conflicts and conflicts arising out of leaders protecting their turf are the challenges to be dealt with. Some leaders are quick to look at the opposite of conflict, the cooperation. It involves demonstrating equity and problem oriented point of view moving away from emotions.

Most emotional behaviours to conflict come from personalising issues. Successful leaders attack these issues by looking at common interests and underlying concerns, avoiding the influence of ‘positions’ and ‘powers’, making way for an objective resolution of conflicts.

They also identify some of the causes of conflicts such as 'tendency to avoid conflict', failure to negotiate, getting too 'sensitive/emotional' and 'taking things personally'. What is needed to come over the causes of conflict is determination and effort.

The author is an HRD and Leadership Competency Consultant who can be reached at mowly@indiatimes.com